Annual Report 1957

FOR YEAR ENDED JANUARY 31, 1958

INTERSTATE DEPARTMENT STORES, INC.

Directors

SAMUEL J. ABEND	HAROLD F. LINDER
SOL W. CANTOR	BENJAMIN W. MAYER
CHARLES E. FEDERMAN	ALBERT PARKER
PAOLINO GERLI	MURRAY D. SAFANIE
BARRY GOLDEN	GEORGE H. STUNTZ
EMANUEL P. LEWIS	HAROLD J. SZOLD

Officers

Chairman of the Board .... MURRAY D. SAFANIE
President .... SOL W. CANTOR
Vice President .... SAMUEL J. ABEND
Vice President .... BARRY GOLDEN
Treasurer .... GEORGE H. STUNTZ
Secretary .... ALBERT PARKER
Assistant Treasurer and Assistant Secretary
EDWARD C. SCHENKEL

Transfer Agent

THE CHASE MANHATTAN BANK..................New York

Registrar

MANUFACTURERS TRUST COMPANY........New York

General Counsel

PARKER, CHAPIN AND FLATTAU................New York

Public Accountants

S. D. LEIDESDORF & CO. ....New York

Executive and General Offices

111 EIGHTH AVENUE.......................................New York

Shares Listed

NEW YORK STOCK EXCHANGE

Annual Meeting

FOURTH WEDNESDAY IN MAY

Summary of 1957

	Years Ended January 31 1958	1957
Sales	$66,653,452	$67,184,604
Net Income Before Taxes	1,623,806	2,131,309
Net Income After Taxes	1,040,407	1,323,860
Earnings Per Share	3.31	4.20
Dividends Paid Per Share	2.50	2.50
Long Term Debt	5,888,251	5,172,348
Working Capital	14,406,749	13,153,291
Stockholders' Equity Per Share	48.56	47.75
Current Ratio	4.0 to 1	3.4 to 1

April 25, 1958

TO THE STOCKHOLDERS OF

INTERSTATE DEPARTMENT STORES, INC.

SALES

Your Company's sales for the year ended January 31, 1958, including sales of leased departments, were $66,653,000, a decline of .8% from the all-time peak of the previous year. Excluding leased departments, sales declined 1.1%.

During the year, we opened three new stores and closed two, with another in process of being closed. One additional store had been opened in August 1956. The four new stores accounted for a sales increase of $2,656,000, which more than offset the decline of $2,388,000 in the 42 stores which were operated throughout the two last fiscal years. The three stores, closed or in the process of being closed, resulted in a reduction of sales for the same stores from the previous year of $946,500.

Your Company's sales were adversely affected by the generally unfavorable business conditions which developed during the year and worsened as we approached the year-end. The impact of this development was especially felt in the North Central States where many of our stores are located. Sales declines varied in degree from store to store, principally in areas most dependent on the automobile, appliance and machinery industries, where personal incomes were sharply curtailed as a result of unemployment and shorter work weeks.

EARNINGS

For the fiscal year ended January 31, 1958 earnings, after provision of $889,600 for depreciation and before taxes, equalled $1,623,800 as compared to $2,131,300 after provision for depreciation of $827,300 for the previous fiscal year. After taxes and including a special credit resulting from the adjustment for the "last-in, first-out" basis for valuing merchandise inventories, earnings were $1,040,400 against $1,323,800 for the fiscal year ended January 31, 1957, equivalent to $3.31 per share of common stock compared with $4.20 per share in the prior year. The special income credit resulting from the adjustment for the "last-in, first-out" basis for valuing merchandise inventories was $21,600 against $122,500 the previous year.

The new stores opened during the fiscal year at Latham Corners, New York, South Flint Plaza in Flint, Michigan, and Coplay, Pennsylvania, as well as the store in Loves Park outside of Rockford, Illinois, which was opened in August 1956 and which was in operation for a full fiscal year for the first time during the year just ended, earned profits for the year, notwithstanding pre-opening and promotional costs. All but one of these new stores is in a shopping center location, and the other is of the "automation" type.

FINANCIAL POSITION

Working capital at the end of the year amounted to $14,406,700 compared with $13,153,200 at January 31, 1957. The respective current ratios were 4.0 and 3.4 to 1.

Working capital increase was principally due to an increase in the Company's long term debt resulting from a new term bank loan negotiated during the year. Under it, the Company's borrowings were increased by $1,500,000 and the final maturity extended from November 1960 to December 1962. The additional funds it provided makes available working capital and fixed capital adequate for the Company's needs. Its terms and restrictions are contained in a note appended to the financial statements included herewith.

As will be noted from the balance sheet the Company's current assets exceeded the total liabilities, including long term obligations, by $8,410,400, an improvement over the position at the end of the previous fiscal year of $494,500.

DIVIDENDS

Dividends paid during the year were maintained at the $2.50 rate which has been in effect since 1951, and on April 15, 1958 the regular quarterly dividend of 62½¢ per share was paid for the first quarter of the current fiscal year. Regular dividends have been paid since 1940. During the same period working capital increased by $10,040,000 and the book value of the Company's outstanding shares has increased from $13.27 to $48.56. This retention of earnings has been the main source of financing your Company's past capital requirements.

STOCKHOLDERS EQUITY

During the year stockholders' equity in book value increased from $47.75 per share to $48.56 at January 31, 1958.

STATEMENT of SOURCE and APPLICATION of FUNDS

	Year Ended Jan. 31, 1958	Year Ended Jan. 31, 1957
Additions to Working Capital		
Net earnings and special item	**$1,040,407**	$1,323,860
Depreciation and amortization	**889,622**	827,371
Increase in long term debt	**715,903**	*293,193*
Decrease in deferred charges	**101,601**	111,747
Increase in deferred Federal taxes	**43,000**	45,000
Decrease in other assets	**34,762**	*43,400*
	$2,825,295	$1,971,385
Deductions from Working Capital		
Dividends paid	**$ 785,260**	$ 787,636
Improvements of existing properties	**473,296**	1,022,459
Acquisition of new properties	**306,322**	156,503
Treasury stock acquired		48,399
Decrease in deferred income — carrying charges	**6,959**	9,462
	$1,571,837	$2,024,459
Increase in Working Capital	**$1,253,458**	*$ 53,074*

BUILDING AND EQUIPMENT

Approximately $473,300 was spent during the year for further improving our existing store buildings and fixtures. This improvement program is being continued in the current year so that our downtown stores may remain competitive with newly remodeled downtown stores and new shopping center stores of others.

In addition, $306,300 was spent for fixtures and equipment required for the opening of the three new stores. We are gratified to have been able to add these three splendid new units to our chain with this modest capital outlay.

NEW STORES AND PLANS

The new shopping center store which was opened in February 1957 in Flint, Michigan replaces the downtown store in that city which is being discontinued.

The shopping center store opened in October 1957 in Latham Corners, New York serves the tri-city area of Albany, Troy and Schenectady. It is located at the junction of major highways which serve these three cities. This store is the outstanding one of the center.

The store opened at Coplay, Pennsylvania in Seotember 1957 is a relatively small unit of the automation type conceived to combine low operating costs and attractively priced merchandise. Your management believes that this may be an important step in the direction of future successful retailing.

We opened a branch shopping center store in Evansville, Indiana in February 1958. Our downtown store in Evansville is an outstanding unit and we feel that it will be profitably supplemented by this new unit.

We are also in the process of opening a 40,000 square foot shopping center store in Massena, New York. This store, which should be in operation in May, will serve a new rapidly growing area in the heart of the St. Lawrence River Seaway project. We have high hopes for its success.

Your management is pursuing aggressively its policy of improving existing stores where this is warranted by the future prospects of these stores. Concurrently with this policy, stores not possessing these attributes will continue to be closed or disposed of gradually. To that end, three such stores were discontinued or were in the process of being discontinued during the last fiscal year. Our new stores, which are primarily located in shopping center areas, have to date proven successful. This policy will be pursued further through careful selection of locations and intensive studies of the potentials. At the same time, we plan to adhere to the program of discontinuing or disposing of existing stores whose future profitability is in question. We are also giving consideration to new stores of the automation type, in which operating costs are at a minimum, and in which the savings in rent, depreciation and selling costs can be reflected in a substantial measure in lower prices to the consumer.

OUTLOOK

At the moment the unfavorable conditions prevailing in the national economy affecting so many of the areas in which our stores are located suggest that, unless there is an early decided improvement, 1958 will be a difficult year. Your management and all of the personnel of our organization, however, are thoroughly alert to the problems which lie ahead and are using every intelligent means to offset the effects of the business recession.

We are not permitting the temporarily depressed business situation to obscure our longer range objectives. Your management is devoting itself intensively, to developing plans and programs to meet changing consumer buying habits and retail merchandising patterns.

We are pursuing our program of upgrading downtown stores which possess good profit potentials; strengthening the successful downtown stores by supplementing them with suburban branch units; establishing modern stores in carefully selected new shopping centers; experimenting with automation type stores; and at the same time eliminating undesirable units. These steps, we believe, add up to a well-rounded, comprehensive program that should mean healthy growth for our Company. It is our expectation that this can be accomplished without outside financing. The conversion of our investments in marginal and out-dated stores will supply an important part of the cost of new units.

Our store improvement and new store efforts would be ineffective without vigorous, imaginative merchandising. We are proud of the skill and devotion with which our merchandising staffs continue to cover their markets to make it possible for our stores to consistently give top values.

For the Board of Directors,

M. D. Safanie

M. D. SAFANIE, *Chairman*

S. W. Cantor

S. W. CANTOR, *President*

Evansville Store,
Lawndale Shopping Center, Evansville, Indiana

Artists' renderings of
Interstate Department Stores
newest suburban units
now in operation

Boston Store, Latham Corners Shopping Center
Albany — Troy — Schenectady, New York

Consolidated Balance Sheet

ASSETS

	1958		1957	
CURRENT ASSETS:				
Cash		$ 1,115,674		$ 1,095,438
United States Treasury bills — at cost plus accrued interest		859,866		
Accounts receivable:				
Customers	$ 5,500,012		$ 5,654,246	
Less: Reserves	460,594	5,039,418	461,429	5,192,817
Other (Note A)		522,040		489,399
Merchandise inventories (Note B)	11,306,009		11,552,287	
Less: Reserve to reduce merchandise inventories at cost as determined on the "last-in, first-out" basis to the lower of cost or market	22,779	11,283,230	44,380	11,507,907
Prepaid expenses		353,955		392,605
Total Current Assets		19,174,183		18,678,166
OTHER ASSETS (Note A)		22,331		57,093
FIXED ASSETS—at cost:				
Land (subject to mortgages — per contra)	$ 185,099		$ 185,099	
Buildings (subject to mortgages — per contra)	$ 511,733		$ 511,733	
Less: Reserves for depreciation	137,671		115,178	
	$ 374,062		$ 396,555	
Furniture and equipment	$ 5,321,091		$ 5,442,725	
Less: Reserves for depreciation	2,781,384		2,800,718	
	$ 2,539,707		$ 2,642,007	
Leaseholds and leasehold improvements	$ 4,958,598		$ 4,761,033	
Less: Reserves for amortization	1,378,312		1,195,536	
	$ 3,580,286	6,679,154	$ 3,565,497	6,789,158
DEFERRED CHARGES		196,744		298,345
		$26,072,412		$25,822,762

The Notes to Financial Statements are an integral part of this

as at January 31, 1958-1957

LIABILITIES

	1958		1957	
CURRENT LIABILITIES:				
Notes payable—current installments (Note C)		$ 755,000		$ 265,000
Accounts payable—trade		2,368,501		2,814,224
Accrued expenses and other liabilities		969,088		1,176,904
Taxes withheld and accrued, other than Federal income taxes		674,845		604,118
Accrued Federal income taxes	$ 637,458		$ 963,941	
Less: United States Treasury bills —at cost plus accrued interest	637,458	—	299,312	664,629
Total Current Liabilities		4,767,434		5,524,875
DEFERRED FEDERAL INCOME TAXES		108,000		65,000
LONG-TERM DEBT:				
Notes payable (Note C)	5,495,000		4,750,000	
Mortgages payable	393,251	5,888,251	422,348	5,172,348
Total Liabilities		10,763,685		10,762,223
DEFERRED INCOME—CARRYING CHARGES		55,290		62,249
STOCKHOLDERS' EQUITY (Notes C and D)		15,253,437		14,998,290
LEASE COMMITMENTS (Note E)				
		$26,072,412		$25,822,762

statement and should be read in conjunction herewith.

INTERSTATE DEPARTMENT STORES, INC. AND SUBSIDIARY COMPANIES

Consolidated Statement of Earnings

For the Year Ended January 31, 1958-1957

	1958	1957
NET SALES:		
Owned Departments	$ 59,408,291	$60,086,455
Leased Departments	7,245,161	7,098,149
	66,653,452	67,184,604
COST OF SALES (including certain buying, occupancy and distribution expenses)	50,057,495	50,591,259
	16,595,957	16,593,345
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	14,972,312	14,574,533
	1,623,645	2,018,812
OTHER INCOME—NET	242,951	338,044
	1,866,596	2,356,856
INTEREST EXPENSE	242,790	225,547
NET EARNINGS BEFORE FEDERAL INCOME TAXES	1,623,806	2,131,309
PROVISION FOR FEDERAL INCOME TAXES	605,000	930,000
NET EARNINGS	1,018,806	1,201,309
SPECIAL ITEM:		
Decrease in reserve to reduce merchandise inventories at cost as determined on the "last-in, first-out" basis to the lower of cost or market	21,601	122,551
NET EARNINGS AND SPECIAL ITEM	$ 1,040,407	$ 1,323,860

Depreciation and amortization amounting to $889,622 for the year ended January 31, 1958, and $827,371 for the year ended January 31, 1957, have been charged to cost of sales and selling, general and administrative expenses.

The Notes to Financial Statements are an integral part of this statement and should be read in conjunction herewith.

NOTES TO FINANCIAL STATEMENTS

As At January 31, 1958

Reference is made to the Annual Report for the year ended January 31, 1957, for the notes pertaining to financial statements as at that date.

NOTE A — The accompanying consolidated balance sheet includes $41,515 due from officers and employees arising from the prior year's installment sales of treasury stock; the stock is pledged as collateral for the indebtedness. Installments of $31,360 due prior to February 1, 1959, are included in "Accounts Receivable — Other" and the balance of $10,155 due thereafter is included in "Other Assets."

NOTE B — Merchandise inventories include merchandise in transit amounting to $866,152 as at January 31, 1958, based on specific invoice cost.

Merchandise inventories at stores are based on the retail method at (a) cost as determined on the "last-in, first-out" basis or (b) the lower of cost or market after provision for markdowns based on age of merchandise.

Merchandise inventories at warehouses are priced at the lower of cost or replacement market.

NOTE C — Notes payable as at January 31, 1958, are due to:

Banks	$3,500,000
Insurance company	2,750,000
Total (including current installments of $755,000)	$6,250,000

During the year, the Company borrowed the above $3,500,000 from banks, of which $2,000,000 was used to

Consolidated Statement of Stockholders' Equity

For the Year Ended January 31, 1958-1957

	1958	1957
EARNINGS RETAINED FOR USE IN THE BUSINESS AS AT BEGINNING OF YEAR	**$11,336,550**	$10,800,326
NET EARNINGS AND SPECIAL ITEM	**1,040,407**	1,323,860
	12,376,957	12,124,186
CASH DIVIDENDS PAID	**785,260**	787,636
EARNINGS RETAINED FOR USE IN THE BUSINESS AS AT END OF YEAR	**11,591,697**	11,336,550
CAPITAL SURPLUS	**2,162,758**	2,162,758
COMMON STOCK (stated at par value of $1 per share since May 27, 1953, plus $1,271,306 retained as Capital by resolution of the Board of Directors—no par value prior thereto):		
Authorized .... 500,000 shares		
Issued .... 316,946 shares	**1,588,252**	1,588,252
	15,342,707	15,087,560
Less—Treasury stock—2,846 shares—at cost	**89,270**	89,270
STOCKHOLDERS' EQUITY (Notes C and D)	**$15,253,437**	$14,998,290

The Notes to Financial Statements are an integral part of this statement and should be read in conjunction herewith.

prepay a note owing one of the banks. The bank loan (bearing interest at 5% per annum) is payable in annual installments of $490,000 in 1958 and 1959, and $840,000 from 1960 through 1962.

The notes payable to an insurance company in the amounts of $2,075,000 and $675,000 require annual payments as follows: on the first note, $200,000 in 1958, $325,000 in 1959, $350,000 from 1960 through 1962 and $500,000 in 1963; on the second note, $65,000 from 1958 through 1966, inclusive, and $90,000 in 1967.

The loan agreements with the banks and the insurance company contain, among other things, restrictions on the right of the Company to declare dividends (other than stock dividends). As at January 31, 1958, approximately $1,300,000 of the consolidated surplus of $13,754,455 is not so restricted.

NOTE D — A stock option plan for officers and key employees of the Company and its subsidiaries authorized the granting of options to purchase not in excess of 25,000 shares of the Common Stock of the Company. To January 31, 1957, options to purchase 10,500 shares had been granted of which options for 8,000 shares had been exercised. An option for the purchase of 2,500 shares expired on March 25, 1958.

NOTE E — At January 31, 1958, the minimum annual rentals of real property leased to the Company or to its subsidiaries under 64 leases expiring after January 31, 1961, amount to approximately $1,400,000, plus, in certain instances, real estate taxes, insurance, etc.

GENERAL — The accompanying financial statements are subject to final determination of Federal, state and local taxes.

Accountants' Report

To the Board of Directors
INTERSTATE DEPARTMENT STORES, INC.
New York, N. Y.

We have examined the consolidated balance sheet of Interstate Department Stores, Inc. and subsidiary companies as at January 31, 1958, and the related consolidated statements of earnings and stockholders' equity for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of earnings and stockholders' equity, together with the notes to financial statements, present fairly the consolidated financial position of Interstate Department Stores, Inc. and subsidiary companies at January 31, 1958, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

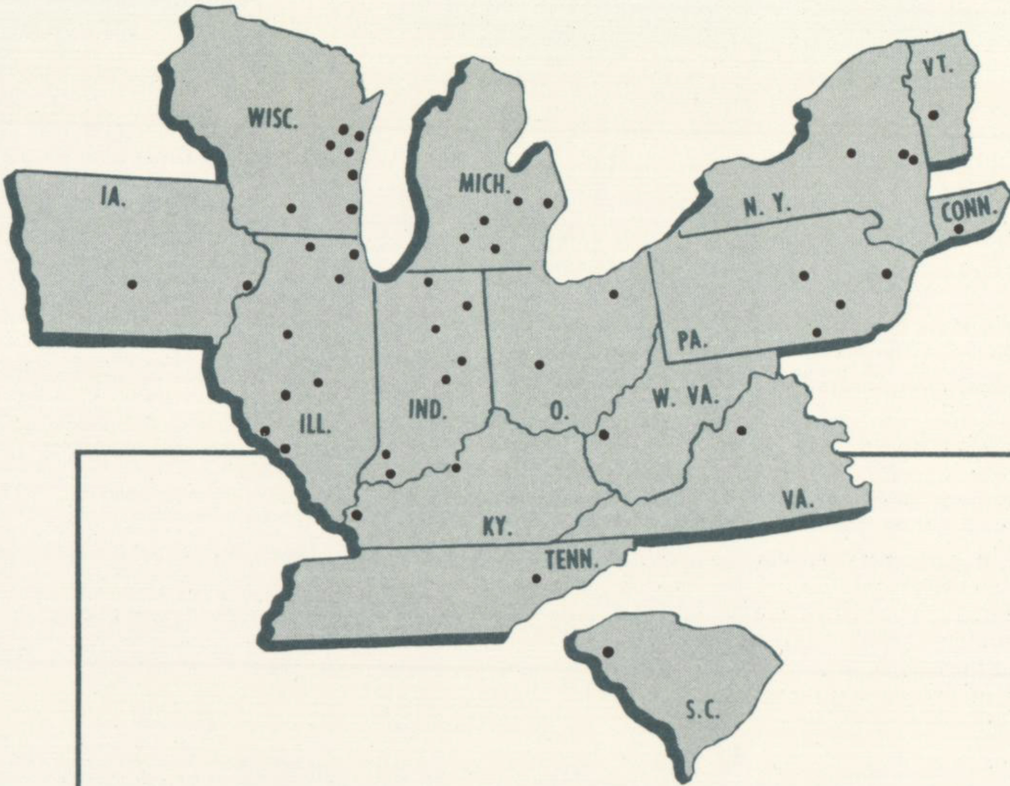
S. D. LEIDESDORF & CO.
Certified Public Accountants

New York, N. Y.
April 11, 1958

10 Year Comparative Operating Statistics

(in thousands of dollars)

Years Ended January 31,	SALES Total	SALES Owned Departments	SALES Leased Departments	NET INCOME Before Fed. Inc. Tax	NET INCOME After Fed. Inc. Tax	Earnings Per Share	Dividends Paid Per Share	Stockholders' Equity Per Share
1958	**$66,653**	**$59,408**	**$7,245**	**$1,623**	**$1,040**	**$3.31**	**$2.50**	**$48.56**
1957	67,184	60,086	7,098	2,131	1,323	4.20	2.50	47.75
1956	66,359	59,062	7,297	2,348	1,360	4.40	2.50	45.99
1955	62,902	55,511	7,391	1,980	1,078	3.51	2.50	44.46
1954	63,865	56,317	7,548	1,829	1,032	3.36	2.50	43.45
1953	64,758	56,900	7,858	2,198	1,188	3.87	2.50	42.59
1952	64,853	56,511	8,342	2,319	1,293	4.20	2.50	41.20
1951	65,508	57,107	8,401	3,320	1,993	6.45	2.125	39.46
1950	61,752	52,016	9,736	1,885	1,160	3.76	2.00	35.13
1949	66,886	57,179	9,707	2,700	1,590	5.15	2.00	33.38



LOCATION OF OUR STORES

CONNECTICUT
New Haven

ILLINOIS
Aurora
Belleville
Decatur
Peoria
Rockford
Loves Park
Springfield
Waukegan

INDIANA
Anderson
Evansville (2)
Fort Wayne
Marion
Muncie
South Bend
Vincennes

IOWA
Davenport
Des Moines

KENTUCKY
Louisville
Paducah

MICHIGAN
Battle Creek
Flint (2)
Jackson
Lansing
Port Huron

NEW YORK
Latham
Troy
Utica

OHIO
Akron
Springfield

PENNSYLVANIA
Coplay
Reading
Williamsport
York

SO. CAROLINA
Anderson

TENNESSEE
Knoxville

VERMONT
Rutland

VIRGINIA
Staunton

WEST VIRGINIA
Huntington

WISCONSIN
Fond du Lac
Green Bay
Madison
Milwaukee
Racine
Sheboygan
West Bend

INTERSTATE DEPARTMENT STORES, INC.

ANNUAL REPORT 1957